

MEMORANDUM

TO: Roy Eft, Chair of the Blanks (E) Working Group
Steve Drutz, Vice Chair of the Blanks (E) Working Group

FROM: Dale Bruggeman, Chair of the Statutory Accounting Principles (E) Working Group
Kevin Clark, Vice Chair of the Statutory Accounting Principles (E) Working Group

DATE: December 19, 2025

RE: Schedule S, Part 8—Reporting of Modco and Funds Withheld Assets

On May 22, 2025, the Statutory Accounting Principles (E) Working Group adopted agenda item 2024-07, Reporting of Funds Withheld and Modco Assets, where a new Schedule S, Part 8 was added to the Life/Fraternal Annual Statement Instructions and Blank, and this was then incorporated in the blank and instructions through Blanks (E) Working Group agenda item 2025-05BWG. This reporting is effective Dec. 31, 2025, and the agenda item did not result in any changes to statutory accounting, it only added the new reporting schedule for the reporting of assets associated with a funds withheld or modified coinsurance (modco) arrangement.

As a result of comments received during the drafting and exposure process, the scope of the project was changed for the final adoption. The initial project intended to capture any and all assets that are subject to a funds withheld or modco arrangement, but the final adoption narrowed this scope to be only assets that are subject to a funds withheld or modco arrangement **where investment risk is transferred**. The goal of this change was to make the new reporting schedule work more cleanly with the Life/Fraternal RBC reporting schedule. The new Schedule S, Part 8 was not intended to impact the RBC calculation or to override or conflict with the RBC instructions, the goal of Schedule S, Part 8 was only to report these assets in categories that would then support validating the numbers that were reported on the RBC schedules. This would give regulators an improved level of confidence in the balances reported in the RBC schedules.

This memorandum intends to address questions that were received after the adoption of the new Schedule S, Part 8. The new Schedule S, Part 8 was not intended to change any part of the way that assets subject to a modco or funds withheld arrangement are factored into the Life/Fraternal RBC calculation. The goal of Schedule S, Part 8 is to create a schedule that matches with already the existing reporting in RBC and does not change or override the guidance that exists in Life/Fraternal RBC reporting. Additional wording was added to be consistent with the existing, long-standing guidance in the Life/Fraternal RBC Reporting Instructions in LR045, LR046, LR047 and LR048, which is excerpted below.

This schedule reports the assets supporting modified coinsurance (MODCO) and other reinsurance transactions with funds withheld where the entire asset credit or variability in statement value risk associated with the assets supporting the business reinsured is transferred to the assuming company for the entire duration of the reinsurance treaty. Only the portion of the assets used to support the ceded or assumed liabilities should be included, i.e. amounts in excess of the reserve should be excluded.

The ceding company is required to supply the assuming company with sufficient information in order for the assuming company to determine the amount of assets withheld under Modco or other funds withheld. An assuming company that has not received timely information shall follow the procedures in the Life Risk-Based Capital instructions for Modco or Funds Withheld Reinsurance Agreements (LR045, LR046, LR047 and LR048) to apply the Modco liability ratio by asset category. The allocated assets should support the portion of the funds held by or deposited with reinsured companies that represents the investment risk assumed as described above, that is, the estimated investment risk assumed should not be greater than the assets reported on the asset page.

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